SERVICE PLAN 2013 / 2014 – 15 / 16

FORESTRY INNOVATION INVESTMENT JANUARY 2013

Forestry Innovation Investment

Cover Image: Langfang Designers' Home, Langfang, Hebei Province, China

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Message from the Board Chair to the Minister Responsible

January 29, 2013

The Honourable Pat Bell
Minister of Jobs, Tourism and Skills Training
Province of British Columbia

Dear Minister Bell:

I am pleased to present you with the *Forestry Innovation Investment Ltd. Service Plan 2013/14 – 2015/16*. This plan sets out the corporation's goals and objectives, the strategies it will use to attain them, and the performance measures and targets for the next three years.

In support of the B.C. Jobs Plan, the Province's forest strategy – entitled *Our natural advantage: Forest sector strategy for British Columbia* – is based on six priorities:

1. A commitment to using wood first;
2. Growing trees, sequestering carbon, and ensuring that land is available from which to derive a range of forest products;
3. Creating a globally competitive, market-based operating climate;
4. Embracing innovation and diversification;
5. Supporting prosperous rural forest economies; and
6. First Nations becoming partners in forestry.

This Service Plan articulates how FII expects to continue its leading role in delivering on three of these priorities, namely Government's Wood First initiative, embracing innovation and diversification, and as an outcome of program delivery, supporting prosperous rural forest economies.

The Government's strategy states that "by encouraging Asian markets to choose B.C. forest products for building materials, B.C. can increase demand for lumber and strengthen the forest sector". FII will continue to give its highest priority to achieving precisely this, both through sharing the cost of market development activities proposed and delivered by forest industry trade associations and by the work of FII's subsidiary in China.

Lumber sales to China have, at least for now, levelled off at about 7.4 million cubic metres per year, reflecting a somewhat slower GDP growth rate in China. FII will continue to put a high priority on introducing wood frame construction in China, so that a significantly greater share of B.C. lumber will be used in higher-value applications, allowing Chinese customers to absorb higher unit costs as lumber prices rise in North America.

During the term of this *Service Plan*, efforts in Asia will be significantly bolstered by FII's new subsidiary in India, with the initial focus on intensive research to understand customer preferences, distribution networks, and competition; prioritize specific opportunities; and link India customers to BC suppliers.

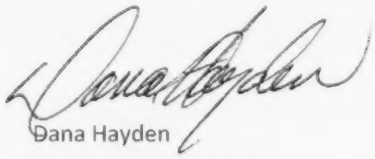
Priorities in the United States will be two-fold: (a) working closely with the new Softwood Lumber Board to increase the share of wood building systems in non-residential and multi-family structures, and (b) promoting sales of value-added products from B.C.

Through its *Wood First* program, FII will continue to promote innovation in manufacturing and using B.C. wood products, so that BC can become a world-class centre of excellence in building technology that can be exported to larger markets. In particular, FII will actively promote the adoption of cross-laminated timber panels, with a long-term vision of having such technology play a larger role in high-rise structures. FII will also collaborate with Canadian and American organizations developing and delivering the new *reThink Wood* program aimed at architects, engineers and others who decide whether to use wood or some other material for large buildings. Staff are particularly engaged in leveraging the "green building" movement as it matures in North America and elsewhere as a means of promoting wood products and wood building systems. Across all markets and product lines, FII staff will ensure customers have factual, credible information about our province's forest management and about the environmental benefits of using B.C. forest products

FII continuously strives to be a well-managed organization that makes a strong contribution to the success of the B.C. forest industry and by extension, the province. Achievement of the targets set in this plan will depend not only on the efforts of FII and its funding recipients, but also ultimately on the commitment of B.C. firms to service customers outside North America, and their ability to be competitive in the face of strong international competition.

The *2013/14 - 2015/16 Forestry Innovation Investment Service Plan* was prepared under the Board's direction in accordance with the *Budget Transparency and Accountability Act* and the *B.C. Reporting Principles*. The plan is consistent with government's strategic priorities and fiscal plan. The Board is accountable for the contents of the plan, including what has been included in the plan and how it has been reported.

All significant assumptions, policy decisions, events and identified risks as of January 15, 2013 have been considered in preparing the plan. The performance measures presented are consistent with the mandate and goals of FII, and focus on aspects critical to the organization's performance. The targets in this plan have been determined based on an assessment of FII's operating environment, forecast conditions, risk assessment, and past performance.



Dana Hayden

Chair, Board of Directors

Organizational Overview

Incorporated in 2003 under the *Business Corporations Act*, Forestry Innovation Investment is the Government of British Columbia's market development agency for forest products. FII works collaboratively with industry trade associations, other levels of government including the Government of Canada and other provinces, and with research institutions to enhance the value of B.C.'s forest resources and strengthen employment throughout the province. FII's mandate, as specified in its *Government's Letter of Expectations*, is to work with the forest industry to develop and diversify markets for B.C. forest products, while promoting B.C. as a world-class supplier of environmentally friendly forest products. Through these efforts, FII helps to strengthen the forest economy and create jobs in B.C.

Vision, Mission and Values

FII's Vision, Mission and Values provide guidance to organizational decision-making and management in terms of achieving the mandate within the context of changing markets and stakeholder expectations. The three guides to organizational direction and decision making were updated in 2012/13 as part of a review to ensure business objectives and activities aligned to the *Government's Letter of Expectations*.

Vision: The British Columbia forest sector is innovative, diverse and prosperous, based on sustainable forest practices and a commitment to continuous product and market development.

Mission: To develop and diversify domestic and international markets for B.C. forest products by working collaboratively with industry, government and institutional partners, and by making well balanced investments that respond to government and industry priorities while maximizing value to the Province.

Values:

Innovation — FII responds to changing market, economic and geo-political forces that impact the forest economy and invests in new programs, research and product development that offer competitive advantages to the forest sector.

Credibility and integrity — FII activities and funded projects are based on government and industry priorities and strategies developed in partnership with stakeholders. FII services are delivered by staff with extensive experience in market development who ensure that funding decisions are transparent, timely and openly communicated.

Collaboration — FII works in partnership with key stakeholders in industry, the research sector and government to develop initiatives and ensure programs are delivered effectively. FII encourages collaboration and coordination among forest product firms, trade associations, academic institutions and others, including the joint development of marketing strategies, sharing of information, and pooling of resources.

Active engagement — As a market development agency, FII is actively involved in the market and product development programs it funds and delivers. FII not only responds to government and industry priorities, but also takes the initiative to identify new market opportunities, conduct research, and counsel industry and government on emerging opportunities and issues.

Managing risk — FII is oriented towards growing markets, but recognizes that there are risks in pursuing opportunities. As much as possible, investment decisions are firmly rooted in current, relevant, and comprehensive market information that provides a sufficiently compelling business case for each market initiative. FII mitigates risk by pursuing a mix of potential short-term and long-term returns, and spreading programs across current and potential markets. FII accepts a higher level of risk in emerging markets where commercial success is relatively more speculative.

Accountability — FII strives for transparent decision-making and investment processes. FII staff understand they have a duty to ensure the appropriate use of the public funds entrusted to them. Activities are expected to be founded on clear objectives, generate a positive return, have well-developed performance measures, and lead to documented results.

Program Areas and Organization Structure

FII is organized into business units that reflect the corporation's mandate of product and market development, as highlighted in the following table.

OPERATIONS	
Market Initiatives	• Research opportunities in new and emerging markets, and initiate early market exploration activities • Support industry trade associations in developing and/or expanding markets and market segments for B.C. forest products • Support industry efforts to mitigate market access and plant health issues • On behalf of the forest sector, manage outreach and relationship building in China with Chinese authorities and central government agencies
Wood First	• Champion the Province's *Wood First* initiative and encourage expanded wood use in B.C. • Encourage the development of a pro-wood culture in B.C., and position B.C. as a leader in wood innovation • Encourage product innovation and the introduction of new wood building systems • Encourage a robust value-added sector in B.C., through enhanced capacity and competitiveness
Market Outreach	• Provide timely and factual information regarding B.C. forest products and forest practices • Champion science- and fact-based approaches to communicate the merits of wood and wood-based construction in a green building and a climate change context • Collaborate with forest sector stakeholders to encourage consistent and compelling messages in the context of product and building innovation • Monitor and advocate in international markets for codes, standards and policies that recognize the merits of wood and B.C. forest products
CORPORATE SERVICES	
Finance & Administration	• Ensure financial reporting to government standards • Provide Human Resource, IT and office services to meet organizational needs • Oversee budget and planning controls
Corporate Relations	• Compile and share export data and analysis on market trends • Support Government and industry trade and investment initiatives • Provide corporate communication and analytical services to meet internal and external needs

How Services are Delivered

To leverage public funds and industry expertise, and take advantage of industry marketing networks in foreign markets, FII uses a joint delivery approach for market development.
About two-thirds of the FII budget funds activities delivered by industry trade associations and other groups. These activities are also funded by Natural Resources Canada through its *Expanding Market Opportunities Program* and the delivery organizations themselves.

Third-party programs are selected through an annual competitive call for proposals that is based on investment strategies updated annually and reflects current market conditions and industry priorities. Each funded activity requires the delivery organization to agree to clear performance criteria, reporting requirements, budget controls, regular monitoring by FII staff, and occasional audits by an independent auditor selected by FII.

FII also directly delivers a number of marketing and communication programs that support government priorities and provide broad-based benefits to the forest sector, but fall outside the mandates of trade associations. These include:

- leading the Province's *Wood First* initiative;
- conducting market research to unearth potential opportunities and create new demand in emerging markets and segments;
- producing marketing resources for general use by industry, such as publications on wood as a green building material, and the *www.naturallywood.com* web site;
- using market outreach communication to explain B.C.'s forest practices and environmental record to international markets;
- delivering market communications based on science- and fact-based approaches to communicate the merits of wood and wood-based construction technologies in a green building and climate change context;
- collaborating with forest sector stakeholders to encourage consistent and compelling messages in the context of product and building innovations and reducing environmental impacts;
- providing market research and outreach to government agencies in China, where FII represents the interests of the forest sector in interactions with Chinese authorities and state controlled enterprises; and
- undertaking early stage market development in India.

Benefits to British Columbia

FII benefits British Columbia by supporting a more competitive, growing forest economy. Since more than 80 per cent of industry output is sold in foreign markets, FII's market development programs link directly to forestry activity in B.C. and the resulting job creation. A stronger and healthier forest economy encourages investment and innovation and directly supports families across B.C. as well as *Canada Starts Here: The BC Jobs Plan*. Specific benefits provided by FII include:

- working to maintain existing markets for B.C. forest products in collaboration with the forest industry;
- opening up new markets for B.C. forest products and creating the potential for new jobs to service these markets;
- investing in early stage market development, such as in India, where there is the potential for significant long-term growth;
- building awareness of B.C. internationally, particularly in the Asia-Pacific region, and
- supporting the growth of a sustainable and green economy, and the value-added wood products sector, by promoting the environmental benefits of wood in structural and non-structural applications and greater use of renewable wood products from B.C. in building construction.

Principal Partners, Clients and Stakeholders

The collective efforts of FII, industry, trade associations, research institutions, governments and other stakeholders support B.C. in maintaining its position as the world's largest exporter of softwood lumber products[1]. FII is proud to work with the following organizations in marketing B.C. forest products at home and abroad.

ORGANIZATION	RELATIONSHIP
Government	
Government of British Columbia	Sole shareholder, provides FII's core funding
Ministry of Jobs, Tourism and Skills Training	Ministry responsible for FII
Ministry of Forests, Lands and Natural Resource Operations	Responsible for forest practice regulations and timber sales, and forest and other related natural resource management
Department of Natural Resources, Government of Canada	Federal funding agency for international marketing through the *Expanding Market Opportunities Program*
Department of Foreign Affairs and International Trade, Government of Canada	Federal agency supporting in-market trade and investment promotion
Government of Alberta	Funding contributor to the China and Japan market development programs
Non-Government	
Forest industry associations and organizations: • APA – The Engineered Wood Association • B.C Shake & Shingle Association • B.C. Wood Specialties Group • Binational Softwood Lumber Council • Canada Wood Group • Canadian Wood Council • Canadian Wood Council – Wood*WORKS!* BC • Cedar Shake and Shingle Bureau • CertiWood • Coast Forest Products Association • Council of Forest Industries • Forest Products Association of Canada • Softwood Lumber Board • Sustainable Building Coalition • Western Red Cedar Export Association • Western Red Cedar Lumber Association • Wood Enterprise Coalition • Wood Pellet Association of Canada • Wood Products Council • Independent Wood Processors Association of B.C.	Organizations that initiate and deliver domestic and international market development programs, typically funded jointly by FII, Natural Resources Canada, and/or other partner organizations. This list also includes agencies not funded by FII, but with which FII interacts to support market and/or product development initiatives.
Post-secondary and research institutions: • Consortium for Research on Renewable Industrial Materials • FPInnovations • University of British Columbia	Partners and/or funding recipients that initiate and deliver product development and technical research, and assist B.C. value-added firms to improve product design and manufacturing

[1] In 2011, BC exported 22.9 million m^3, followed by Russia with 20.2 million m^3. Canada as a whole exported 33.1 million m^3. (Source: Statistics Canada; 2011 World Trade Atlas)

Canada Wood Group, a consortium of industry trade associations, delivers many market development activities in China, Japan, Korea and the E.U. Funding is provided by FII, Natural Resources Canada, the Government of Alberta (China and Japan program only) and industry members. Activities include market development (marketing and promotion), building relationships with government officials, developers and the building sector, and research institutions on topics related to market access (for instance, acceptability of B.C. species and grades in local building and fire codes), and related issues.

In China, FII supports the Canada Wood Group with an in-market presence focused on government-to-government relations with Chinese authorities and state-owned development companies. Currently, the only forest-sector specific presence in India is FII's new subsidiary company, established in 2012 with substantial financial support from Natural Resources Canada.

In the United States, trade associations including the Wood Products Council, Western Red Cedar Lumber Association, and B.C. Wood Specialties Group lead market development activities funded by FII and by industry through the Binational Softwood Lumber Council, and a new participant, the Softwood Lumber Board. Activities focus on the non-residential sector, multi-storey/multi-family housing, and niche markets in the residential sector.

In other markets, trade associations lead market development activities with funding from FII, Natural Resources Canada and industry. Activities focus on market development and market access.

Location of Operations

The FII corporate office is located at:
#1200 - 1130 West Pender Street, Vancouver, British Columbia.

The company's China subsidiary, FII Consulting (Shanghai) Co, Ltd., is located at:
425 Hong Feng Road, Jinqiao, Pudong New Area, Shanghai, P.R. China 201206

FII Consulting (Shanghai) also has staff in Beijing located at:
Room 1507, Kuntai International Mansion, No.12 B Chaowai Street, Beijing 100020.

The company's India subsidiary, Forestry Innovation Consulting India Private Ltd., is located at:
The Hub, One Indiabulls Centre, 10th Floor, Senapati Bapat Marg, Elphinstone Road, Mumbai - 400 013. India

More information on FII is available at www.bcfii.ca. General information on B.C.'s forest products and sustainably managed forests is available at www.naturallywood.com.

Corporate Governance

Board of Directors

FII is responsible to the Minister of Jobs, Tourism and Skills Training through a three-member Board of Directors. The Government appoints the Board to set operational policy for the organization and, in cooperation with senior management, to set strategic direction. The Board also monitors FII's performance based on the Province's planning and reporting principles. The Board appoints the Chief Executive Office and delegates responsibility to the CEO for the day-to-day leadership and management of the organization.

The members of the Board of Directors are:

- Dana Hayden, President and CEO, B.C. Pavilion Corporation;
- Lori Wanamaker, Deputy Minister, Ministry of Justice; and
- Dave Peterson, Chief Forester and Assistant Deputy Minister, Tenures, Competitiveness and Innovation Division, Ministry of Forests, Lands and Natural Resource Operations

The FII Board has an Audit Committee, which is responsible for reviewing, recommending, and in some instances, approving financial statements and other information. The Audit Committee has three positions. Two are filled by Lori Wanamaker and John Desjardins, Partner, KPMG. One position is currently vacant.

Governance Principles and Practices

The FII Board of Directors operates according to six guiding principles related to:

- stewardship, leadership and effective functioning of the Board;
- clarity of roles and responsibilities;
- openness, trust and transparency;
- service and corporate citizenship;
- accountability and performance; and
- value, innovation and continuous improvement.

Details about how the guiding principles are applied are posted on FII's website at: http://www.bcfii.ca/aboutus/corporate/corporate-governance.

The Board incorporates best practices into its governance procedures as guided by the *Best Practices Guidelines on Governance and Disclosure for Public Sector Organizations*.

As recommended in the guidelines, FII's disclosure, including its Status of Concurrence with Best Practices Guidelines is available on the company's website at http://www.bcfii.ca/wp-content/uploads/aboutus/corporate/corporate-governance/Status-of-Concurrence-with-Best-Practices-Guidelines.pdf. As detailed in the *Status of Concurrence* report, FII is substantially in accordance with governance best practices set out by the Province's Crown Agency Resources Office.

FII Executive Management

- Ken Baker, CEO
- Douglas Greig, Vice President, Finance and Administration
- Michael Loseth, Vice President, Operations

Industry Advisory Committees

Three committees of senior forest industry representatives provide continuing advice to FII:

Market Acceptance Advisory Group:
Offers strategic direction on FII's Market Outreach programming

Wood First Advisory Committee:
Offers strategic direction on the *Wood First* program and related priorities for investment[2]

Proposal Evaluation Panel:
Evaluates funding proposals received through FII's annual call for proposals process

Subsidiary Companies

FII Consulting (Shanghai) Co. Ltd. (wholly owned by Forestry Innovation Investment Ltd.)

Primary business: Supporting the B.C. forest industry by providing market research, technical wood frame building expertise and related liaison with Chinese government authorities on behalf of industry.

Objective: Work with the B.C. forest industry and the federal government to grow the market for B.C. wood products in China, primarily by creating new demand for structural lumber and related building products.

Governance: Sole Executive Director: Ken Baker, CEO, FII

Senior Management: Lisa Dou, General Manager

Financial information: See the Financial Report

0939031B.C. Ltd. (wholly owned by Forestry Innovation Investment Ltd.)

Primary business: to be the second shareholder in FII Consulting India Private Limited (reflecting India legislation that requires foreign-owned companies to have at least two shareholders).

Objective: to fulfill India laws regarding foreign ownership of India companies.

Governance: Sole Director: Ken Baker, CEO, FII

Senior Management: None

Financial information: See the Financial Report

FII Consulting India Private Limited (wholly owned by Forestry Innovation Investment Ltd. and 0939031 B.C. Ltd.)

Primary business: Supporting the development of the market for B.C. forest products through market research, promoting B.C. wood products and related technologies, providing intermediation with India regulatory authorities, and providing direct support for B.C. companies entering the India market.

Objective: Work with the B.C. forest industry and the federal government to grow the market for B.C. wood products in India by creating new demand for softwood products in the furniture, interior finishing and other segments.

Governance: Three-member Board of Directors:

- Ken Baker, CEO, FII
- Douglas Greig, Vice President, Finance and Administration, FII
- Michael Loseth, Vice President Operations, FII

Senior Management: Kant Singh, Country Director

Financial information: See the Financial Report.

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[2] The Wood First Advisory Committee was established following the transfer of the Wood First initiative to FII from the Ministry of Jobs, Tourism and Skills Training. The committee provides strategic advice to the initiative, including the development of the annual investment strategy that guides *Wood First* investments. The committee has also replaced the *Business Innovation Advisory Committee* that provided advice to FII on services offered to the value-added sector. In fiscal 2012/13, FII incorporated all value-added programs within *Wood First*.

Strategic Context

Internal Operating Environment

FII operations in B.C. in 2012/13 were unchanged from 2011/12 in terms of structure and emphasis. Investments related to the value-added wood sector were consolidated with the *Wood First* program for operational and management efficiencies.

In China, FII initiated the transition of certain market development activities to the Canada Wood Group under an agreement reached with industry in 2011/12. FII's subsidiary in China reduced its staff level from 19 to 14 at the start of fiscal 2012/13, with 5 of the remaining staff being essentially seconded to Canada Wood Group for one year. Moving into 2013/14, FII China's overall staffing numbers are anticipated to remain unchanged; however, some internal shifting of resources between locations is forecast, with three positions eliminated in Beijing and three new technical staff added in Shanghai. In 2013/14, FII China will continue to emphasize its core strength in building relations with Chinese government officials and state-owned developers, especially in providing assistance with architectural and engineering design. Canada Wood Group will provide training, technical expertise for building and fire codes, on-the-job quality assurance services and promotion, and sales support to individual companies.

FII's subsidiary in India now employs four locally-engaged staff and a technical contractor from B.C. to provide on-the-ground expertise on the B.C. industry and products. For optimum efficiency, the FII office in Mumbai will be co-located with the new Trade and Investment operation of the B.C. Ministry of Jobs, Tourism and Skills Training.

Economic, Industry and Market Factors

B.C.'s forest economy is heavily weighted towards international trade, with more than 80 per cent of sales in foreign markets. FII programming reflects this market emphasis, with most programming and related performance measures focused on external markets. A number of trade and macro-economic factors that are beyond the control of FII heavily influence the achievement of these performance targets, including:

- **Currency exchange rates:** The value of the Canadian dollar relative to the U.S. dollar is a major factor in the competitiveness and profitability of the B.C. forest industry because most forest products are sold in U.S. currency. The Canadian dollar is currently trading close to par with the U.S. dollar, making Canadian firms less profitable than when the Canadian dollar was worth substantially less in American currency. . Similarly, the weakness of the Euro against the Canadian dollar is making European exporters of forest products relatively more competitive against B.C. firms. This may impact sales in foreign markets, including the United States.
- **Transportation:** The Canadian forest products industry has enjoyed low-cost "back haul" rates on containers being shipped from the west coast of North America to China. The dramatic increase in B.C. lumber exports to China, however, has led to capacity issues in the transportation system and, as a consequence, a rapid escalation in container costs. With wood exports to China almost double the level of two years ago, the industry's comparative advantage in shipping products to Asia has been reduced.
- **In-market factors:** Conditions within any market may vary from those discussed above due to fiscal, political, monetary and regional economic factors. For example, tax and trade policies of other countries can directly influence the demand for B.C. wood products (e.g., Russian log export taxes are now trending lower making Russian fibre more competitive in the Chinese market), and demographic shifts in regional markets can place downward or upward pressure on the demand for housing and, consequently for wood products. Capital investment and national economic growth, in particular, are factors that strongly influence market-by-market demand for wood products.

Risks and Opportunities Analysis

The following risks and opportunities may impact FII performance in 2013 – 2014.

RISKS & OPPORTUNITIES	POTENTIAL IMPACT	FII RESPONSE
U.S. Housing Market		
• **Risk:** Apparent recovery in the U.S. housing market falters.	• As B.C.'s largest export market, continued weakness threatens the overall recovery of the B.C. forest industry. • Reports of new housing construction indicate that the market is continuing to recover, but only slowly. • B.C. exports to the end of September 2012, are at a 2–year high, reflecting a strengthening market, but the recovery is still fragile.	*Goal 2 Market development:* • Continue to develop offshore markets, such as China, to offset risk of weak U.S. market. • Explore emerging markets, notably by establishing a presence in India in 2012/13. • Build demand in non-residential and multi-family sectors in the U.S., both currently with a low market share of wood construction and products, to offset the heavy reliance on the single-family housing market.
Demand for Wood in Asia		
• **Risk:** The financial crisis centred in Europe continues to dampen economic growth and demand in Asia.	• Asia, and particularly China, have been growth markets in recent years for B.C. wood products and now represent roughly half of all export sales. • Weakness in Asian economies, particularly the slowing of the Chinese economy through 2011/12, has lowered the overall pace of B.C. export growth.	*Goal 2 Market development* • Pursue market segments that are less subject to cyclical fluctuations (e.g., affordable housing in China). • Diversify market development across multiple segments such as multi-family, non-residential and resort development. • Continue market development initiatives in other Asian markets, including India, and in key growth segments in North America.
• **Opportunity**: The Chinese Government has called for cooperation with Canada on the adoption of modern wooden structures to address energy conservation and climate change.	• Chinese authorities are continuing to emphasize energy conservation and climate change in their construction policies. Wood frame construction has been identified as offering potential solutions.	*Goal 2 Market development* • Continue to work under the MOU with the Chinese Ministry of Housing and Urban-Rural Development to promote the superior environmental performance of wood. • Work with major private and state-owned developers to establish the wood as the "greenest" building product and wood-frame construction as an efficient, climate-friendly alternative to traditional concrete, steel and masonry building methods.

RISKS & OPPORTUNITIES	POTENTIAL IMPACT	FII RESPONSE
Coastal Industry		
• **Risk:** Continued soft market demand for Hemlock and Amabalis Fir (hem-fir).	• Weak demand for the major species, by volume, from coastal B.C. continues to weaken employment in, and profitability of, the coastal forest industry.	*Goal 2 Market development:* • Support market development in Japan targeted to hem-fir products. • Explore new market opportunities for hem-fir, especially in India. • Fund Western Red Cedar promotion to strengthen sales of the other major species from the coast. • Support product testing initiatives to increase the acceptance of hem-fir in the Japanese post-and-beam construction sector.
Advances in Building Systems and Products		
• **Risk:** Non-wood products threaten value-added wood products.	• Buildings systems and products are constantly evolving, creating shifts in consumer interest and demand.	*Goal 3 Wood First:* • Through the *Wood First* initiative support research and development of new building systems and related products. *Goal 1 Benefits of wood:* • Counter arguments against wood through science-based arguments on environmental and construction benefits of wood products and building systems.
• **Opportunity:** New wood products and building systems provide entry into new building segments.	• Wood products and building systems are increasingly competitive in larger building (commercial, institutional) markets, opening up tremendous growth potential. • Greater price sensitivity in multi-family residential and commercial building sectors opens up opportunities as wood construction is cost competitive with concrete and steel building systems.	*Goal 3 Wood First:* • Research innovative building systems that allow taller, larger buildings to be built with wood. *Goal 2 Market development:* • Promote cost competitiveness of wood construction and products to the development sector and non-residential developers, highlighting new construction techniques and products, such as cross-laminated timber. *Goal 1 Benefits of wood:* • Align the North America *reThink Wood* message platform with government and industry programs targeting architects, engineers and other specifiers

RISKS & OPPORTUNITIES	POTENTIAL IMPACT	FII RESPONSE
Changing Attitudes Towards the Environment		
• **Risk:** Consumer sensitivity towards global forest practices and resulting drop in demand for forest products.	• Greater consumer awareness of global warming creates sensitivity on forest practices, which may lead to a reputational risk and consumer resistance in purchasing wood products.	*Goal 1 Benefits of wood:* • Promote the high environmental standards of B.C. forest practices to procurement policy makers, consumers and buyers in key markets. • Promote the benefits of wood as a product that regenerates naturally and, when managed sustainably, supports climate change reduction strategies.
• **Opportunity:** Consumer shift towards green products.	• Greater consumer interest in green products can increase market demand for B.C. wood products, particularly for value-added products, as B.C. forest products are sustainably harvested.	*Goal 1 Benefits of wood:* • Emphasize sustainable, green nature of B.C. wood products and related building systems through targeted programs in key markets.
Market Development Funding		
• **Risk:** Federal funding for the Canada Wood Export Program (now called the Expanded Market Opportunities Program) was renewed in 2011/12 for two years, but with a gradual reduction in overall funding level	• Reductions in federal program funding over the next two-years will necessitate either a scaling back of some market development program activities, or increased contributions from industry and/or FII.	*Goal 4 Organizational effectiveness:* • Lead discussions with other provinces, particularly Alberta, regarding financial participation. • Work with the North American forest industry to secure cooperative funding under the new check-off program administered by the US Department of Agriculture. • Encourage greater industry financial participation in offshore programming.
• **Risk:** Industry financial capacity and spending priorities.	• Beginning in 2013/14, Natural Resources Canada is requiring industry to increase its financial contributions to offshore market development programs. Absent a significant rise in demand in the U.S., trade associations and their members may not be able or willing to contribute more, triggering reductions in, and/or elimination of, some market development initiatives.	*Goal 4 Organizational effectiveness* • Encourage industry and related trade associations to increase their financial contributions to support the current level of programming.

Organizational Capacity

FII has the organizational capacity, skills and budget necessary to achieve its performance targets in 2012/13. However, as noted in the table above, the federal government's requirement for increased financial contributions from industry beginning in 2013/14 could act to reduce and/or eliminate some industry-led market development initiatives. Reduced overall programming (FII-NRCan-industry) in key markets may have a negative impact on the ability to achieve organizational objectives across the period of this Service Plan.

Moving Forward

This section of the *Service Plan* identifies the goals and strategies that FII will pursue for the three-year period from 2013/14 through 2015/16. The objective is to ensure that the B.C. forest sector continues to be a global leader in market and product innovation and that the economic benefits generated from the forest resource are maximized.

Over the term of this *Service Plan*, FII programs will continue to focus investments on innovation and market development to strengthen the position of the forest sector in both its conventional product and market mix and in areas of new opportunity. At the same time, FII recognizes that the opportunities presented by the development of a new generation of engineered products and building systems, and the rapid emergence of the "bio-economy" have the potential to be economic game changers for the sector, generating new wealth, more skilled jobs and greater stability for communities and workers. Through its investments, FII encourages industry efforts to move up the value chain thereby creating higher margin products and services that are harder for competitors to copy.

Across the period of this *Service Plan*, FII programming will evolve with the market to reflect new opportunities for traditional solid wood and pulp and paper products, advanced engineered materials and building systems, and where appropriate, non-conventional, next generation bio-products.

Strategic Goals

To focus activities and guide business planning over the next three years, the following four goals have been adopted:

GOAL 1	Wood is viewed as an environmentally-friendly, preferred building material and B.C. is recognized as a reliable supplier of quality products from sustainably-managed forest
GOAL 2	Sales of B.C.'s conventional and emerging forest products are greatly expanded in markets offering high potential returns
GOAL 3	B.C. is a world-class centre of excellence in developing and using innovative wood products and building systems
GOAL 4	FII serves its stakeholders in a highly effective, innovative and responsive manner

The following sections elaborate on each goal, the outcomes that must be realized to achieve the goals and the specific initiatives that will be adopted to achieve each outcome.

GOAL 1

Wood is viewed as an environmentally-friendly, preferred building material and B.C. is recognized as a reliable supplier of quality products from sustainably-managed forest

The primary objective of Goal 1 is to expand opportunities for B.C. forest products by positioning wood, and wood-based products from B.C., as the first choice for environmentally-friendly building materials. The strategies under Goal 1 create a solid foundation for answering "Why wood?", and "Why wood from B.C.?" – upon which many of FII's other market development investments and activities are based.

Goal 1 focuses on taking advantage of two significant trends in the marketplace – the emerging recognition of wood products as "green" and increasing demands from consumers for forest products that are produced in an environmentally-responsible manner. As customers are factoring environmental practices into purchasing decisions, there is considerable value in articulating the benefits of wood as a sustainable, renewable building material; its advantages in creating a significantly smaller environmental footprint than other building materials; and the fact that wood and pulp and paper products from B.C. are manufactured by an industry that has made impressive gains in reducing its environmental footprint. Strategies in support of this goal are designed to build on the growing awareness of the benefits of wood products, and position B.C. as a global leader in sustaining forest resources and environmental values. This dual positioning will help strengthen awareness of, and interest in, B.C. forest products in major markets and, in turn, support greater market share, premium positioning, and easier access to new markets.

Strategies to support Goal 1:

- Provide timely and factual information regarding B.C. forest products and forest practices;
- Champion science- and fact-based approaches to communicate the merits of wood and wood-based construction technologies in a green building and a climate change context;
- Collaborate with forest sector stakeholders to encourage consistent and compelling messages in the context of product and building innovations and reducing environmental impacts; and
- Monitor and advocate in international markets for codes, standards and policies that recognize the merits of wood and B.C. forest products.

Performance Targets

Performance Measure		2011/12 Actual	2012/13 Forecast	Forecast		
				2013/14	2014/15	2015/16
1A	Per cent of customers who feel that choosing products from B.C. (Canada) is a good choice for the environment	98%	n/a	90%	n/a	90%

Importance of Measures:

1A: Positioning British Columbia as a preferred global supplier

The measure provides an indication of the effectiveness of FII's international advocacy and communications initiatives to influence customer perceptions of B.C. and its forest management practices. Performance data are gathered through a bi-annual survey of international customers (e.g., large institutional pulp and paper buyers, wood importers and distributors, and carbon market stakeholders) conducted by an independent research firm. FII has seen performance strengthen over the past decade. The survey identifies the percentage of customers who feel that B.C.'s environmental reputation is as good as, or better than, the average of competing forest products jurisdictions.

GOAL 2

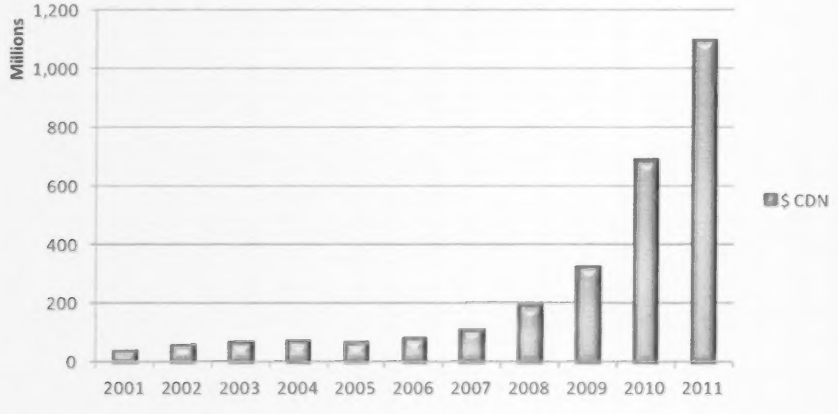
Sales of B.C.'s conventional and emerging forest products are greatly expanded in markets offering high potential returns

Goal 2 drives FII's efforts to assist the B.C. forest industry in developing and diversifying markets, with a particular focus on Asia. These efforts build on the science and reputational basis developed under Goal 1. They include creating or expanding new market segments within traditional regions (e.g., non-residential uses in the U.S.), as well as fostering demand in regions not currently using high volumes of B.C. forest products (e.g., the multi-family and non-residential market in China and the domestically focused re-manufacturing sector in India).

Strategies under this goal include a mix of activities delivered by third parties and by FII. FII collaborates with industry trade associations, the federal government and other funding bodies to leverage its investments for the greatest potential return for B.C. Working with those organizations, FII's objective is to strengthen demand for B.C. forest products and expand potential end-use applications.

Activities associated with Goal 2 recognize the progress made in diversifying B.C. exports away from historically heavy dependence on the U.S. housing sector. In 2003, only 17% of lumber exports went to markets other than the US. By 2011 non-U.S. market share had grown to 52%, not only because sales to the U.S. had dropped significantly, but also because sales to Asia, particularly China, had increased dramatically. If the industry retains its customer base in Asia when U.S. demand rebounds, it will be less vulnerable to negative market cycles in North America. The focus of Goal 2 is to maintain existing markets while cultivating future high potential markets for B.C. forest products.

BC Softwood Lumber Exports to China



During the period of this *Service Plan*, FII will continue its focus on growing markets in China, Japan and South Korea. FII will also accelerate its efforts to capture the apparent potential in India by leading industry in building the foundation for a new market development initiative there. In North America, FII will focus on growing high potential market segments in the commercial, retail, industrial, institutional and recreational construction segments. FII will work with the forest industry to stabilize existing markets, and encourage efforts to strengthen and expand market opportunities to support future growth and employment.

Strategies to support Goal 2

Support the B.C. forest industry to develop and diversify markets for B.C. wood products in new and existing markets by:

- funding trade association market development programs based on priorities outlined in FII's annual investment strategies;
- engaging with industry and foreign government agencies to eliminate barriers to access in foreign markets;

- initiating early stage market development efforts in emerging economies;
- completing disaster reconstruction projects under the Canada-Tohoku Reconstruction Project in Japan;
- partnering with the federal government and working with B.C. and bi-national trade associations to expand the use of wood in the non-residential and multi-family construction sectors in North America; and
- engaging industry and institutional partners to explore market development potential for commercial or near-commercial bio-products.

Performance Targets

Performance Measure		2011/12 Actual	2012/13 Forecast	Target		
				2013/14	2014/15	2015/16
2A	B.C. softwood lumber exports to priority Asia Pacific markets (000's of m^3)					
	China	7,343	7,400	7,550	7,700	7,850
	Japan	2,497	2,650	2,775	2,900	3,000
	South Korea	168	190	220	265	290
2B	Incremental sales generated in U.S. non-residential market (millions of board feet)	257	310	370	445	530

Performance measures and targets for Goal 2 have been developed based on independent, third-party, research on market potential; FII's internal market research; an assessment with industry trade associations of specific segments and market opportunities; and other projections made by FII in consultation with industry.

Importance of Measures:

2A: B.C. exports of softwood lumber to priority Asia Pacific markets

The measure tracks the extent to which the B.C. forest industry shifts its reliance away from the United States by selling to Asian customers over the longer-term. This is an indicator of market diversity and greater overall demand. The target is weighted to sales in China, where FII investments are leveraging a significant joint industry and government (provincial and federal) market development effort. Export volume totals are based on Statistics Canada export data with export forecasts derived from published third-party analysis as well as FII and industry detailed market segment analysis. Data interpretation and forecasts are consistent with industry measurement practices.

Although growth in lumber export volumes to Asia has dampened with the slowdown in China, the overall volume and value of B.C.'s global lumber exports rose 7 and 10 per cent respectively in 2012 (year through November) as recovery in the U.S. housing market continues to pull lumber demand and prices in North America upward.

China:

While exports to China, B.C.'s second largest export market, exceeded forecast by a wide margin (17% above target) in 2011/12, exports to China are not expected to meet the earlier forecast for 2012/13. As noted elsewhere in this Plan, growth in the construction sector in China, and sluggish exports of manufactured products, have resulted in lower than anticipated consumption of wood and reduced imports of lumber from all sources. FII has revised growth forecasts for lumber exports to China downward to 2% per annum from 20% for the period to 2015/16 in line with consensus expectations the growth of wood consumption in China. Although growth in overall export volumes is expected to remain low for the period through 2015/16, B.C. lumber sales into the key higher-value wood frame construction segment continue to grow at a healthy pace. Forecasts are for the volume of higher value structural lumber consumed in wood frame construction to grow from 300,000 m^3 in 2012 to over 700,000 m^3 by 2015, an increase of over 130 per cent. Based on forecast

pricing for China, this represents a potential market value of over $200 million in the wood frame construction segment by 2015.

Japan:
B.C. exports of softwood lumber to Japan are on target. Exports to Japan will remain largely dependant on housing starts; however, an increasing volume of lumber will be directed to non-residential construction over the forecast period. Modest growth in housing starts is anticipated through 2015/16, although an expected increase in consumption taxes could result in a temporary softening of the market. Exports may increase beyond forecast for 2015/16 as a result of reconstruction related to the March 2011 Great Eastern Japan earthquake and tsunami.

Korea:
Performance in the Korean market is based on tracking the volume of B.C. lumber consumed in wood frame applications. Focusing on the wood frame construction market (as opposed to total exports) limits measurement confusion created by fluctuating volumes of low-grade B.C. product consumed in Korea's treated wood industry. Recent regulatory changes are anticipated to block B.C. products from this market segment[3] which may result in a drop in the volume of low-grade product exported to Korea beginning in 2013/14.

Estimates for B.C. lumber consumed in wood frame construction are calculated from Korean government data on housing starts and floor area. Actuals for 2011/12 have been revised upward to 168,000 m^3 (from 164,000 m^3) and the forecast for 2012/13 has also been revised upward from 175,000 m^3 to 190,000 m^3. Total growth potential for B.C. softwood lumber over the next five years is now estimated to be 20 per cent, with the majority of the increase coming from increases in the use of B.C. lumber in Korea's wood frame construction segment.

2B: Sales into the non-residential markets in the United States and B.C.

This measure tracks success in introducing wood frame technology to the non-residential construction sector in the United States as a way of lessening the B.C. industry's overwhelming reliance on U.S. residential construction. The U.S. program figures are based on reports from the Wood Products Council (WPC), which tracks the volume of wood used in U.S. non-residential construction. Figures in the table above represent incremental wood volumes generated through program activities delivered by the WPC and partially funded by FII.

Performance targets have been re-stated from the 2012/13 *Service Plan* to reflect a more rigorous tracking approach being developed by the Wood Products Council beginning in the summer of 2012. The change in methodology has resulted in a downward scaling of wood volume estimates across the forecast period. The new scaling is reflected in the Performance Target table above. The major funders of the Wood Products Council (i.e., the U.S. Softwood Lumber Board, the Binational Softwood Lumber Council, and Natural Resources Canada) are undertaking a joint audit of the methodology used to calculate incremental board foot sales. The work is being funded by NRCan with the dual objectives of increasing the accuracy of measurement data in the U.S. program and harmonizing the data collection methodologies applied in both the U.S. and Canadian non-residential programming. (See Goal 3, Performance Measure 3A.) Further rationalizing of performance measures for both programs may take place in 2013/14 as this work continues. Adjustments will be reflected in the 2013 *Annual Service Plan Report* and the 2014/15 *Service Plan*.

The ability to achieve Performance Measures 2A and 2B is heavily influenced by the performance of the industry market development programs supported by FII. As part of the funding approval process, specific performance measures are set for each project. All of these measures are directly linked to FII's broader goals and targets. For more details, please refer to FII's Performance Management Framework at: http://www.bcfii.ca/about_fii/corporate_reports.htm

[3] A number of B.C. species will not meet the new technical requirements for chemical treatment of wood (for preservation purposes)

GOAL 3

B.C. is a world-class centre of excellence in developing and using innovative wood products and building systems

This goal supports the Government of B.C.'s objective to generate greater added value in the forest economy. This objective is based on the realization that long-term sustainability of the forest economy includes maintaining and building sales, as well as driving up the value of sales through the introduction of new, innovative forest products, advanced wood technologies, and new building systems.

Strategies to achieve Goal 3 are delivered primarily through the *Wood First* initiative, the need for which was articulated by the Working Roundtable on Forestry in 2008. In 2009, the Province announced the *Wood First* initiative, and followed this with the *Wood First Act* to take a leadership position in utilizing more wood in provincially funded buildings. The *Act* is a key element of the *Wood First* initiative, and further leverages products, technologies and services into the municipal and private sectors.

FII has been responsible for the *Wood First* initiative since June 2011. An independent Wood First Advisory Committee provides strategic guidance on implementation priorities. Strategies focus on expanding the use of wood products, technologies and services within B.C., and creating a cultural preference for building and living with wood. Showcasing B.C.'s expertise is an effective means of marketing value-added products, building systems, and services at home and abroad, as well as developing a pro-wood culture in British Columbia. FII draws heavily on existing research and service delivery organizations, promoting integrated planning and coordinated delivery of program activities and initiatives.

Strategies to support Goal 3

- Work with industry and government stakeholders to establish a "culture of living and building with wood" in B.C.
- Maximize the appropriate use of wood in B.C.'s public and private construction by:
  - leveraging Provincial capital projects to showcase wood construction;
  - encouraging local and regional governments to adopt "Wood First" policies;
  - providing technical support to local governments and industry on wood building systems;
  - supporting technical research, and product and systems development to ensure B.C. has the capacity to produce high-quality wood-based products and building systems.
- Accelerate the adoption of existing and emerging wood-based products and building systems in B.C. by working with regulatory authorities, research institutions and the development community to increase collaboration, broaden building codes, demonstrate technology, and increase the overall capacity of the sector to utilize wood products and systems.

Performance Targets

Performance Measure		2011/12 Actual	2012/13 Forecast	Forecast		
				2013/14	2014/15	2015/16
3A	Incremental Sales Generated in the B.C. Non-Residential Market (millions of board feet)	61	72	75	80	88
3B	Percent of allowable floor area (B.C. Government buildings) built with wood[4]	n/a	49%	n/a	54%	n/a

[4] Benchmark developed in 2011, but based on construction completed between January and December 2009. FII measures wood use in public buildings every two years, with the calendar year 2012 being the most recent measurement period. Measure of wood use is relative to total floor area where wood is allowed under existing building codes. Building code changes resulting in expanded opportunities for wood use (changes to the code to allow wood in larger buildings) will affect this metric. In the event of such changes, FII may need to restate results to ensure comparability over time.

Importance of Measures:

3A: Incremental sales generated in the B.C. non-residential market

This measure tracks success in increasing wood usage in the B.C. non-residential construction sector, a core objective of the province's *Wood First* strategy. Figures for B.C. are incremental wood volumes generated through program activities funded by FII in partnership with the Canadian Wood Council. As noted for Performance Measure 2B, above, rationalizing of performance tracking methodologies between the U.S. and Canadian non-residential programs will take place in 2013/14. Any adjustments in targets resulting from this work will be included in the 2014/15 *Service Plan*.

The ability to achieve Performance Measure 3A is impacted by the performance of FII's funding recipients in their delivery of *Wood First* programming (Canadian Wood Council, BC Wood Specialties Group, FPInnovations and the Centre for Advanced Wood Processing at UBC). As part of the funding approval process, performance measures are established for each project. These measures are directly linked to FII's broader goals and targets. For more details, please see FII's Performance Management Framework at: http://www.bcfii.ca/about_fii/corporate_reports.htm.

3B: Percentage of allowable floor area built with wood

This measure tracks actual wood use in publicly funded buildings in B.C., an indicator of progress in meeting the objectives of the *Wood First Act*. The measure is limited to buildings/floor area that can be built under the existing B.C. Building Code in order to eliminate skewing of data by projects that could not currently be converted to wood. Given the long lead times for major construction projects, including securing funding, design and engineering, project approvals and finally construction, it is not uncommon for 2-3 years or more to pass from project concept to completion. Moving into 2013 and beyond, a gradual but increasing impact is projected. FII benchmarked wood use in public construction for 2009 (when the *Wood First Act* was passed) and measured again for the 2012 calendar year. Wood use in public construction will be measured next in 2014, and every two years thereafter.

During 2012/13, FII began developing an additional performance indicator for Goal 3, but it is not yet ready for adoption. This indicator is intended to assess perceptions of wood with key specifier groups, and wood's acceptance as a preferred building material. This performance measure will be evaluated through bi-annual surveys of architects and engineers in British Columbia and in other regions of North America. This direct measurement of the impact of outreach activities on enhancing perceptions of wood among audiences that have the greatest ability to influence design and procurement decisions will be used to evaluate program impact and performance.

GOAL 4

FII serves its stakeholders in a highly effective, innovative and responsive manner

FII is committed to sound business practices incorporating robust financial controls, and a performance management framework including monitoring, audit and evaluation built on a comprehensive risk-assessment strategy. All of these elements reflect government policies and best practices. FII is also committed to a path of environmental sustainability and minimizing its environmental footprint, in order to protect the natural environment and the B.C. economy for future generations.

FII will continue to place significant emphasis on delivering its primary programs and services in collaboration with the forest industry, the federal government, the research community and other provincial agencies. The objective is to leverage the expertise and financial resources of key players across the Canadian and international forest sectors and to create critical mass in the development and delivery of strategic and focused market and product development programming.

Strategies to support Goal 4:

- Ensure FII is efficient, transparent and results focused by:
  - Keeping corporate support costs at or below 7% of total budget;
  - Implementing a rigorous performance management system;
  - Monitoring and auditing funded projects according to explicit risk assessments.
- Ensure the integrity and timeliness of funding to other organizations for activities that will enhance the forest sector's economic and social benefits to British Columbia
- Maximize the financial contributions of key partners to core programming.
- Minimize FII's carbon footprint and promote environmentally responsible business activities.

Performance Targets

Performance Measure		2011/12 Actual	2012/13 Forecast	Target		
				2013/14	2014/15	2015/16
4A	Timeliness of annual funding cycle for trade associations, research institutes, and universities	Competitive funding process was completed by April 1	Competitive funding process will be completed by April 1	Competitive funding process is completed by April 1	Competitive funding process is completed by April 1	Competitive funding process is completed by April 1
4B	Other organizations' aggregate contribution to recipient funding program[5]	65%	64%	65%	65%	65%

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[5] FII targets annual partner contributions of approximately 65% toward total recipient program funding; however, partner cost sharing varies from 0 to 85%, depending on the specific activity. Individual partner contributions can also fluctuate considerably across fiscal years, depending on partner programming priorities and budgets.

Importance of Measures:

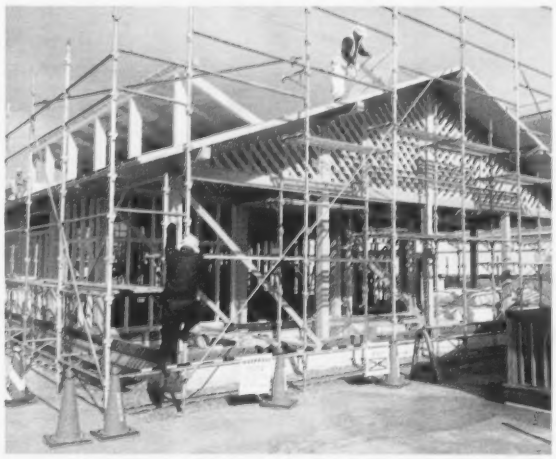
4A: Timeliness of annual funding cycle

Over half of FII's budget is used to fund activities proposed through an annual Call for Proposals process. This process typically attracts some 35 proposals describing hundreds of proposed activities and detailing specific cost estimates and cost sharing. Proposals are peer reviewed and point-ranked against pre-set evaluation criteria. Performance Measure 4A tracks how efficient FII is in managing the annual funding process, a key objective of which is to ensure that funding is available to successful proponents by the start of each fiscal year.

4B: Partner contributions

This measure tracks the effectiveness of FII in securing external resources to deliver market development programs on behalf of the Government of B.C. The willingness of industry partners, the federal government and other provincial governments to contribute to market development activities is a direct indicator of the value placed on these activities, particularly at a time of severe resource constraints. Data to support the measure is sourced from the on-line recipient program system, which is co-funded and managed by FII and Natural Resources Canada, and through FII's year-end financial analysis. In addition to industry's contribution to the on-going recipient programming, FII also draws other leveraged funding for its market development programming. For 2012/13, this "other" funding includes up to $600,000 from Natural Resources Canada for the launch of the India market development initiative. FII also leverages significant dollars for the *reThink Wood* initiative against which FII's contributions of $829,000 leverage a total of $280,000 from the Softwood Lumber Board, $970,000 from the Binational Softwood Lumber Board and $180,000 from the Forest Products Association of Canada. While these "other" funds represent a significant portion of FII's annual programming, FII does not include them in annual Service Plan forecasts as amounts and sources are subject to dramatic change.

Every year, more than half of the budget for FII's funding program is contributed by other parties. Other organizations contribute significantly to other special initiatives. For example, in 2011 B.C.'s $2 million commitment to the Canada-Tohoku Reconstruction Project in Japan was augmented by a $2 million contribution by the federal government through Natural Resources Canada, $460,000 from industry, and $150,000 from the Government of Alberta. In 2012/13, FII also successfully leveraged financial commitments totalling $1,430,000 from the U.S. Softwood Lumber Board, the Binational Softwood Lumber Council and the Forest Products Association of Canada to introduce the reThink Wood *initiative with the objective of having industry across North America deliver consistent messaging on wood performance, cost, sustainability and the many advantages of wood building systems.*



The Donguri Anne Public Library, Natori City, in Miyagi Prefecture, Japan, is the first project to be completed under the Canada Tohoku Reconstruction Project. The Library opened on January 18, 2013.

Change to Goals and Performance Measures since Publication of the February 2012/13 Service Plan

In 2012/13, FII completed a strategic review of its goals and strategies to better reflect the organization's responsibilities for the *Wood First* initiative, and to recognize the potential for the forest sector in the new bio-economy. The result of this review is FII's first five-year strategic plan which refreshes the organization's vision, mission and goals to more closely align these with the organization's mandate and operating environment. In order to create consistency with the new Strategic Plan, Service Plan goals 1 and 2 were re-ordered and the wording updated. A new goal was also established to reflect FII's expanded *Wood First* mandate. Key changes to the Service Plan for 2013/14 are summarized in the following table.

GOAL FEBRUARY 2013	REVISIONS TO STRATEGIES/ MEASURES	REASON FOR CHANGE
Goal 1: Wood is viewed as an environmentally-friendly, preferred building material and B.C. is recognized as a reliable supplier of quality products from sustainably-managed forests.	*Strategies*: Goal 1 strategies now specific to FII's mandate to position wood products from B.C. as a first choice. Strategies related to *Wood First* shifted to a new Goal 3. *Measures:* Former Measure (E): Bi-annual perception survey is now Measure 1A. *Wood First* Performance Measure (formerly 1.C.) is moved to new Goal 3.	Positioning wood as an environmentally-friendly building product and B.C. as a reliable supplier of quality products underpins all of FII's market development activities. It is now a stand alone Goal (previously combined with *Wood First*). FII's Expanded *Wood First* mandate and strategies are now reflected in a separate Goal 3.
Goal 2: Sales of B.C.'s conventional and emerging forest products are greatly expanded in markets offering high potential returns.	*Strategies*: Expanded Goal 2 strategies include market access and completion of the Japan tsunami reconstruction project. *Measures:* Projected volumes for B.C. exports to China revised downward to 2 per cent per annum from 20 per cent.	Goal's wording broadened to recognize FII's broader global programming and to reflect emerging opportunities related to bio-products. Measure for China revised downward to reflect changing global conditions and consensus consumption and import forecasts for China.
Goal 3: B.C. is a world-class centre of excellence in developing and using innovative wood products and building systems.	*Strategies:* Strategies in support of the *Wood First* initiative expanded to reflect FII's broader mandate. *Measures:* Former Measure (C) - sales generated in the B.C. non-residential market - moved to Goal 3 (3A).	In light of FII's expanded responsibilities for the Province's Wood First initiative, a new Goal was created specific to the *Wood First* mandate
Goal 4: FII serves its stakeholders in a highly effective, innovative and responsive manner.	*Strategies:* No change *Measures:* No change.	Formerly Goal 3. Revised Goal wording better reflects organizational objective.

Government's Letter of Expectations

The Province of British Columbia is the sole shareholder of FII. The *Government's Letter of Expectations* (GLE) sets out the Province's annual direction to FII, including key performance expectations. The GLE for 2013/14 confirms FII's mandate to:

- position British Columbia as a global supplier of world-class environmentally friendly forest products;
- actively maintain, create and diversify demand for B.C. forest products in Canada and in key world markets;
- help break down non-tariff trade and market barriers to ensure opportunities for B.C. forest products;
- work with the forest industry to promote B.C.'s world-leading forest products and forest management to the global marketplace; and
- help ensure that the forest sector, through product development and strong international sales, continues to be a leading contributor to the B.C. economy.

Further details on these directives are available at http://www.bcfii.ca/aboutus/corporate/corporate-reports.) The GLE also sets out a number of specific expectations, as summarized in the following table:

GLE DIRECTIVE	ACTION RESPONSE
Achieve the following sales of softwood lumber in 2013/14: To China: 10.7 million cubic metres	**China:** • China's economy, while growing faster than western nations, has been slowing since early 2010 when it was growing at an annualized rate of 11.9 per cent. In the third quarter of 2012, growth had dropped to 7.4 per cent on an annual basis. At the same time, the economy has been shifting away from a reliance on capital spending (including office, factory and housing construction). These two factors, combined with central government policies to cool an overheated housing market, have slowed construction activity, and as a result, the demand for wood products. At the same time, rising international lumber prices (due to recovery in the U.S. market) have reduced the rate of growth in lumber consumption and imports as Chinese buyers are shifting towards more domestic supply. Reflecting these factors, B.C. industry forecasts for lumber imports in China have been revised downward for the period to 2017. Service Plan goals and targets have been re-specified in line with these new estimates. • 2013/14 will see FII complete the hand-off of certain market development responsibilities in China to the Canada Wood Group. FII will continue to emphasize its core strength in building relations with Chinese government officials and state-owned developers, while Canada Wood Group, with FII support, will provide training, technical expertise for building and fire codes, on-the-job quality assurance services and promotion and sales support to individual companies. Marketing programs will focus on uses for higher quality lumber, such as wood-frame housing and institutional buildings.

GLE DIRECTIVE	ACTION RESPONSE
To Japan: 2.775 million cubic metres	**Japan:** • Market development in Japan is led by the Canada Wood Group and FII will continue to fund a portion of these activities through a tri-partite funding arrangement (FII, Natural Resources Canada, industry trade associations) • Canada Wood Group activities will focus on developing niche opportunities in elderly care facilities, post-and-beam and 2x4 wood-frame construction, and value-added products. Work will also continue to effect changes in Japanese building and fire codes and standards to accommodate coastal products. This will include testing for applications of cedar, hem-fir and oriented strand board to ensure B.C. maintains its position as a preferred supplier. • Priority initiatives for 2013/14 also include delivering on the $4.5 million Canada-Tohoku Reconstruction Project. This effort to build wood legacy projects in the tsunami disaster zone is being led by Canada Wood Group with contributions of $2 million each from the B.C. Government and the Government of Canada, and a further $500,000 from industry.
To South Korea: 187,000 cubic metres	**South Korea:** • Market development in Korea is led by the Canada Wood Group and FII will continue to fund a portion of these activities through a tri-partite funding arrangement (FII, Natural Resources Canada, industry trade associations). • Canada Wood Group activities for 2013/14 will focus on encouraging more mid-rise (3-4 storey) residential and commercial construction and hybrid (wood on concrete) building systems to increase B.C. exports of higher-value structural grade lumber. The program will also focus on "new town" developments outside the major cities and target affordable housing projects that emphasize sustainability.
Generate 500 million board feet of incremental lumber sales in the United States non-residential construction sector.	• In 2013/14, FII will work closely with the new Softwood Lumber Board, the Binational Softwood Lumber Council and Natural Resources Canada to provide support for the development of non-residential wood construction in the United States. • FII will provide core funding for the Wood Products Council (WPC) and its partner agencies to lead this effort by targeting architects and designers, pursuing national level opportunities with major end users, and stimulating the sale of wood products in major national chain stores. • Opportunities will be explored to increase wood use in non-residential construction using both traditional wood frame construction and innovative systems, such as cross-laminated timber (CLT) and hybrid wood-concrete construction. • Performance targets for 2012/13 – 2015/16 have been re-stated from the 2012/13 Service Plan to reflect a more rigorous tracking approach being implemented by the WPC. New research on wood use in the non-residential sector across the U.S. is being completed and this work will provide a more accurate baseline against which to track the impact of promotional investments.

GLE DIRECTIVE	ACTION RESPONSE
Generate 75 million board feet of incremental lumber sales in the B.C. non-residential construction sector. Lead the Province's *Wood First* initiative	• With guidance from the Wood First Advisory Committee of industry and building sector representatives, activities will focus on accelerating the use of wood-based building systems by developers and other builders • FII will continue its partnership with Natural Resources Canada to pursue wood use in non-residential construction via the WoodWORKS! BC program. Achieving greater penetration of six-storey and other multi-unit construction across the province will be a priority. • FII activities will be leveraged through funding to programs delivered by industry partners, including the BC Wood Specialties Group, WoodWORKS! BC, FPInnovations and the UBC Centre for Advanced Wood Processing. • Within the provincial government, FII will continue to work with the Procurement Working Group of ministry officials responsible for building new facilities to ensure that B.C. wood products are used as a "product of choice," as outlined in the Wood *First Act*.
Ensure that 90 per cent of customers feel that choosing forest products from B.C. is a good choice for the environment.	In 2013/14, FII will focus on the following activities: ***Market access and acceptance:*** Lead on government-to-government relations with respect to market barriers and market acceptance initiatives, particularly in respect of forest management and environmental impact ***B.C. forestry and wood products communication:*** Provide independent, commercially-neutral promotion of the performance and environmental merits of wood and the B.C. forest sector in order to help maintain a base of support that underpins specific product/market messaging delivered by B.C. companies and industry associations. ***Media monitoring and issues management:*** Monitor developments and trends as they relate to environmental and social responsibility policy that may impact the ability of B.C. producers to access domestic and foreign markets.
Create a subsidiary company in India and initiate a new market development program in that country.	• Leveraging 50% funding from the federal government, FII established a subsidiary in India in 2012/13, opened an office in Mumbai (co-located with the Ministry of Jobs, Tourism and Skills Training), and hired staff to run the program. • As India is not yet a significant market for B.C. wood products, in 2013/14 the program will focus on supporting industry outreach, developing relationships with Indian officials, wood buyers and other stakeholders, and identifying the most viable options for building a sustainable demand for B.C. wood products.

GLE DIRECTIVE	ACTION RESPONSE
Create critical mass in the development and delivery of market development programs by leveraging the expertise and financial resources of key players across the Canadian and international forest sectors.	• In 2013/14 FII will continue to use a joint funding approach for all externally delivered market development programs. Funding partners and contributions vary by initiative and market, but may include the Government of Canada, other provinces, industry trade associations, the Softwood Lumber Board, the Binational Softwood Lumber Council, and research institutions. On average, FII collaborators contribute more than 65% of the costs of the Company's annual funded initiatives. • FII will continue to rely extensively on industry and stakeholder advice, and input on business strategies through formal advisory committees. Ongoing dialogue and consultations with trade association and industry leadership remain integral to program development and delivery. • Technical and research expertise in B.C. will be leveraged through funding for targeted research projects that align with the business objectives of various programs, including market research and insights, strategy development, and product and building system research, such as for taller wooden buildings
Comply with Governments requirements to be carbon neutral under the Greenhouse Gas Reduction Targets Act.	• FII will continue with continuous improvement in recycling practices, energy use and consumption, purchasing practices, and behavioural change management. FII will offset any remaining emissions through the Pacific Carbon Trust.

Summary Financial Outlook

Budget Allocations

For 2013/14, total funding available to FII is expected to be about $17.3 million, a reduction of $500,000 from this past year.

Budget allocations for 2013/14 will be approximately as follows:

- $6.4 million for market development work by trade associations, and $0.6 million to administer the funding program; this funding will be allocated through the annual Call for Proposals process, with most funds going to B.C. trade associations working in China, the United States, Japan and Korea. Cost-share rules for the funding will be essentially the same as in the past.
- $2.8 million for the *Wood First* program, of which $2.5 million will be made available to the members of the Wood Enterprise Coalition to collaborate on delivering a suite of activities based on priorities recommended by the Wood First Advisory Committee; and $0.3 million will be used to support FII's internally initiated projects related to *Wood First*, such as commissioning technical studies of cross-laminated timber.
- $2.4 million to FII China.
- $1.2 million to FII India.
- $2.6 million for FII's self-initiated market outreach and development initiatives.
- $1.3 million for FII's corporate support.

Operations

FII will continue to rely heavily on trade associations to develop and deliver market development programs based on country-specific strategies and quantified sales objectives for each product line and identified end-uses.

In China, the staff will focus on a program to service the front-end market development activities by assisting with architectural design, engineering and working drawings in support of the commercialization of wood frame construction in China. The FII China staff will also provide Government-to-Government relations in support of the industry association, Canada Wood China, in its quest to continue to provide training in wood frame construction, quality assurance for commercialized projects and technical support in the adoption of wood frame building and fire codes.

In India, the new staff will build on market development activities started in late 2012. This will involve new market research and identification of prospective customers for B.C. wood products suitable for the manufacture of furniture, doors and doorframes, and interior millwork. Staff in India will also assess the potential for using B.C. wood products in structural applications.

To ensure that FII's programming continues to accord not only with the B.C. Government's priorities, but also with those of the B.C. forest industry, staff will continuously consult with expert advisory committees set up to provide program focus and advice to FII.

Financial

Year-over-year financial data for FII and its subsidiaries, FII Consulting (Shanghai) Co. Ltd. and Forestry Innovation Consulting India Private Ltd., are summarized in the tables on the following page.

Forestry Innovation Investment Ltd.
Consolidated Summary Financial Outlook
2011/12 – 2015/16

	Actual 2011/12 (000's)	Projected 2012/13 (000's)	Budget 2013/14 (000's)	Budget 2014/15 (000's)	Budget 2015/16 (000's)
Revenue					
Contribution from the Province of BC	$ 20,520	$ 17,800	$ 17,300	$ 17,300	$ 17,300
Other Revenue	$ 1,201	$ 600	-	-	-
	$ 21,721	$ 18,400	$ 17,300	$ 17,300	$ 17,300
Expenses					
Market Development by other organizations	$ 8,203	$ 7,340	$ 6,760	$ 6,760	$ 6,755
Woodfirst Program	$ 747	$ 2,650	$ 2,800	$ 2,800	$ 2,800
China Market Development	$ 2,901	$ 2,600	$ 2,400	$ 2,400	$ 2,400
Wenchuan Earthquake Reconstruction	$ 880	-	-	-	-
China Demonstration Projects	$ 1,015	$ 100	-	-	-
India Market Development	-	$ 950	$ 1,200	$ 1,200	$ 1,200
Government Initiatives and Outreach	$ 6,524	$ 2,900	$ 2,600	$ 2,600	$ 2,600
Corporate Support	$ 1,238	$ 1,360	$ 1,300	$ 1,300	$ 1,300
	$ 21,508	$ 17,900	$ 17,060	$ 17,060	$ 17,055
Operating Income	$ 213	$ 500[1]	$ 240	$ 240	$ 245
Amortization	$ 193	$ 150	$ 240	$ 240	$ 245
Excess of Revenue over Expenses	$ 20	$ 350	-	-	-
Retained Earnings, end of year	$ 1,170	$ 1,520	$ 1,520	$ 1,520	$ 1,520
Capital Expenditures	$ 230	$ 500	$ 25	$ 25	$ 25

[1] The $500K is a result of the capitalization of leasehold improvements and furniture purchased to outfit the new India office.

FII Consulting (Shanghai) Co. Ltd.
Summary Financial Outlook
2011/12 – 2015/16

	Actual 2011/12 (000's)	Projected 2012/13 (000's)	Budget 2013/14 (000's)	Budget 2014/15 (000's)	Budget 2015/16 (000's)
Revenue					
Contribution from Forestry Innovation Investment Ltd.	$ 2,901	$ 2,400	$ 2,400	$ 2,400	$ 2,400
	$ 2,901	$ 2,400	$ 2,400	$ 2,400	$ 2,400
Expenses					
China Market Development	$ 2,901	$ 2,400	$ 2,400	$ 2,400	$ 2,400
	$ 2,901	$ 2,400	$ 2,400	$ 2,400	$ 2,400
Excess of Revenue over Expenses	-	-	-	-	-
Retained Earnings, end of year	-	-	-	-	-

Forestry Innovation Consulting India Private Ltd.
Summary Financial Outlook
2011/12 – 2015/16

	Actual 2011/12 (000's)	Projected 2012/13 (000's)	Budget 2013/14 (000's)	Budget 2014/15 (000's)	Budget 2015/16 (000's)
Revenue					
Contribution from Forestry Innovation Investment Ltd.	-	$ 1,450	$ 1,200	$ 1,200	$ 1,200
	-	$ 1,450	$ 1,200	$ 1,200	$ 1,200
Expenses					
India Market Development	-	$ 950	$ 1,200	$ 1,200	$ 1,200
	-	$ 950	$ 1,200	$ 1,200	$ 1,200
Operating Income	-	$ 500	-	-	-
Amortization	-	-	$ 165	$ 165	$ 170
Excess of Revenue over Expenses	-	$ 500	($ 165)	($ 165)	($ 170)
Retained Earnings, end of year	-	$ $500[2]	$ 335	$ 170	-

[2] The $500K is a result of the capitalization of leasehold improvements and furniture purchased to outfit the new India office.

Financial Notes

Risks and Assumptions

The continuity of FII's investments, programming and activities continues to depend upon receipt of funds from the Ministry of Jobs, Tourism and Skills Training.

FII assumes that industry trade associations, research institutes and universities will continue to propose eligible and acceptable projects for FII funding and that these proposals will make up approximately half of FII's expenditures.

Subsidiaries

See the FII Consulting (Shanghai) Co. Ltd. and Forestry Innovation Consulting India Private Ltd. financial outlook (previous pages). Funding for these subsidiary companies is by way of consulting fee invoices to the parent company in Canada (FII Ltd.).

FII Consulting (Shanghai) Co. Ltd. staff will focus on building deeper and broader relationships with Chinese government officials at all levels, as well as with state-owned development companies. The intelligence they gain and relationships they build will help to guide priorities of B.C. trade associations and individual firms.

Forestry Innovation Consulting India Private Ltd. staff will build a broader understanding of the opportunities for the use of B.C. forest products in the India market.

Capital Initiatives

The capital expenditures projected for the next three years relate to normal replacement of computer equipment, and to fit out of the new India office.

Non-Disclosure of Information

Consideration of the *Freedom of Information and Protection of Privacy Act* has not caused FII to withhold any information in this Service Plan.

Debt

FII has no debt.

Information

Further information on Forestry Innovation Investment is available at www.bcfii.ca A *Report to Stakeholders* published in November 2012 highlights accomplishments in major markets around the world. Previous Service Plans and Service Plan Annual Reports are available at http://www.bcfii.ca/aboutus/corporate/corporate-reports.

Comprehensive information about B.C.'s sustainable forest management practices and products is available at www.naturallywood.com, with links to many forest-product companies and trade associations.

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